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The Director of Central Intelligence

Washington, D.C. 20505

National Intelligence Council

NIC 03069-85
14 June 1985

MEMORANDUM FOR: Director of Central Intelligence
Deputy Director of Central Intelligence

FROM: David B. Low
National Intelligence Officer for Economics

SUBJECT: Economic Policy Council Meeting on US-EC Trade
Relations

1. There is presently scheduled on Monday, 17 June 1985 at 10:45 a.m. a meeting of the Economic Policy Council to review US-EC trade relations and to discuss specifically a Section 301 action in response to the EC's practice of discriminating against US exports of citrus products. This meeting is scheduled to be chaired by the President.

2. A preliminary meeting was scheduled for 4:30 p.m. today but was cancelled because Treasury Secretary Baker could not attend.

3. While you have not been invited to the meeting on Monday morning, if it occurs (and this is still somewhat up in the air) I believe it is important that you attend. Accordingly, attached are materials as follows:

Attachment A. Talking points on the strategy paper concerning US-EC trade relations.

Attachment B. Talking points (just in case it comes up) on a separate topic, which is the issue of crude oil exports from Cook Inlet, which was part of the agenda for today's meeting.

Attachment C. Background papers explaining the citrus products issue.



David B. Low

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the GATT as the only alternative. A last-ditch effort to arbitrate this dispute was made by the Director-General of GATT in August-September 1982. However, the EC rejected all offers of compromise. A panel was established in 1983 and in December, 1984 ruled unanimously that the EC preferences had nullified U.S. benefits under GATT with respect to exports of oranges and lemons.

In January 1985, prior to submission of the panel report to the GATT Council, the EC informed the U.S. that it intended to block adoption. On the fringes of the Kyoto Quadrilateral meeting, the USTR again suggested to EC Commissioner De Clercq that a solution be negotiated. De Clercq rejected the proposal.

When the GATT Council took up the citrus report on March 12 and April 30 the U.S., supported by some other CP's, proposed adoption of the panel report and recommendation. The EC and preference recipients strongly criticized the report and opposed adoption. U.S. offers to drop the report if the EC carried out the recommendation met with no response. Moreover, further diplomatic efforts to resolve the issue, including a letter from Secretary Schultz to foreign ministers of the EC member states, have been unsuccessful in convincing the EC to negotiate.

The EC's view is colored by its commitment to maintain a special trade relationship with the Mediterranean preference recipients for economic and political reasons. In the face of the erosion of the value of the current preferences by Spanish accession to the EC in 1986, the present EC members have accepted the EC reasoning that further concessions to the U.S. are impossible. The dispute settlement procedure has thus reached an impasse and cannot resolve the dispute.

TPRG ACTION:

On March 27, the TPRG considered what action to take in the citrus case. The TPRG noted that in the panel's view the EC preferences had, in effect, upset the balance of trade concessions between the U.S. and EC and that under such circumstances the U.S. would be entitled to re-balance the level of concessions by withdrawing specific concessions to the EC. The TPRG also recognized that because the EC was blocking the GATT process, the U.S. did not have specific GATT authorization to withdraw concessions and that the EC could therefore challenge the legitimacy of a U.S. withdrawal such as that proposed with respect to pasta. In such circumstances, the EC would likely receive a favorable panel finding. If so, we would link the two panel findings, not allowing one to be adopted without the other. The EC could, of course, also immediately retaliate against the U.S. without GATT authorization (in doing so, it would lack not only GATT approval but also the moral support of a favorable panel finding). Nevertheless, the TPRG believed that reasonable action to re-balance the level of concessions was appropriate to enforce U.S. rights under the GATT if the EC would not negotiate a solution. In the TPRG's view, lack of action would be detrimental to our interests because it would sig-

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nal GATT members that Panel reports can be blocked with impunity and would revive Congressional efforts to make 301 action mandatory.

Therefore, the TPRG agreed to deem dispute settlement ended (and thus trigger the 30-day statutory deadline for a recommendation to the President) at the April 30 GATT Council meeting if the EC continued to block the report. It also directed that maximum efforts be made to negotiate a solution with the EC. Finally, it directed the 301 Committee to propose withdrawals of concessions on appropriate EC products.

As noted above, all diplomatic efforts to resolve the issue have failed and the April 30 GATT meeting ended in a deadlock.

On May 10, USTR held a public hearing on the issue of what recommendation should be made to the President. Testimony in favor of withdrawal of concessions was given by the California-Arizona Citrus League, Sun-Diamond and the National Pork Producers' Council. The Florida Citrus Commission advocated establishment of an international commodity arrangement for citrus to deal with a wide range of citrus issues, including preferences. The Commission stated it would not oppose a withdrawal of concessions if efforts to negotiate such an agreement failed. USTR also received testimony favoring withdrawal of concessions from the American Farm Bureau Federation, the International Apple Institute, the Northwest Horticultural Council, and the National Pasta Association and the National Association of Growers and Processors for Fair Trade, the California Farm Bureau Federation, the Cling Peach Advisory Board and a number of Members of Congress.

Testimony in opposition to withdrawal of trade concessions with respect to specific products has been received from the National Association of Beverage Importers and the French Federation of Wine & Spirits Exporters (wine, spirits and beer); Mars, Incorporated, Commerce Foods Inc., the Food & Confectionery Group of the American Association of Exporters and Importers, and Peter Paul Cadbury, Inc. (candy); the International Bottled Water Association and the Perrier Group (mineral water); the Apple Group of the Association of Food Industries (apple juice); and the National Association of Specialty Food Trade (specialty food items, wines & candy). Only the last group opposed restrictions on pasta on the grounds that its members, as importers, would be adversely affected by import restrictions.

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APPENDIX I

Citrus Case: Withdrawal of Concessions

Calculation of Lost Trade

Using a market share approach as described below, the trade loss resulting from EC preferences is 17,499,000 for oranges and 30,707,500 for lemons for a total trade loss of \$48,206,500.

EC Imports of Oranges

	<u>TOTAL</u> <u>(Vol.)</u> <u>(000 MT)</u>	<u>U.S.</u> <u>Vol.</u> <u>%</u> <u>(000 MT)</u>	<u>Preference Countries</u> <u>Vol.</u> <u>%</u> <u>(000 MT)</u>
1966-69*	2039	67 3	1,684 83
1981-83	1622	18 1	1,349 83

If U.S. had maintained 3% share of 1981-83 market, it would have sold a total of 48,700 MT's or an additional 30,700 MT's over the 18,000 actually sold. Assuming a price of \$570/MT, the trade loss on these additional tons amounts to \$17,499,000.

EC Imports of Lemons

	<u>TOTAL</u> <u>(Vol)</u> <u>(000 MT)</u>	<u>U.S.</u> <u>Vol.</u> <u>%</u> <u>(000 MT)</u>	<u>Preference Countries</u> <u>Vol.</u> <u>%</u> <u>(000 MT)</u>
1966-68	117	45 38	66 56
1981-83	267	15 6	228 85

If U.S. had maintained 38% share of the 1981-83 market, it would have sold a total of 101,500 MT or an additional 86,500 MT over the 15,000 actually sold. Assuming a price of \$355/MT, the trade loss would be \$30,707,500.

*1968 was excluded because it was a freeze year.